CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 135 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 22ND AND TUESDAY 23RD MARCH 2021

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of March 2021 confronted with downside risks to the optimism for significant improvement in global output recovery in 2021. The risks stem largely from the uncertainty surrounding the efficacy of the COVID-19 vaccines in surmounting the new variants of the novel coronavirus, as well as speedy deployment of the vaccines across the globe. In the domestic economy, the exit from recession in the fourth quarter of 2020 brought about a renewed hope for full recovery in 2021, notwithstanding the obvious downside risks to the entire global economy. The Committee appraised the developments in both the global and domestic economic and financial environments in the first quarter of 2021 and the outlook for the rest of the year.

Nine (9) members of the Committee were in attendance.

Global Economic Developments

The Committee noted that while vaccination against COVID-19 had gained significant grounds in major advanced economies, some emerging market and developing economies were yet to commence any form of vaccination. This development portends an uneven recovery to global growth, as barriers to trade and the global supply chain are likely to remain in place much longer than anticipated to prevent re-infection in countries that have achieved significant vaccination and some form of herd immunity. The growing concerns associated with the efficacy of these vaccines, especially in the face of new variants of the virus, however, poses a significant threat to the overall recovery of the global economy. The broad direction of the expected rebound in global output recovery, therefore, varies across countries depending on the headwinds confronting individual economies.

Consequently, the International Monetary Fund (IMF) projects a growth rate of 4.3 per cent for the advanced economies and 6.3 per cent for the emerging and developing economies, with a global growth rate of 5.5 per cent in 2021.

The downside risks to this projection are associated with concerns that the existing vaccines being deployed may not effectively subdue the new and existing variants of the virus and thus, restrictions may remain in place which may hamper the speed of the expected recovery globally.

Price developments across major advanced economies remain subdued alongside the expectation that output gaps will remain negative into the medium term. In the Emerging Market and Developing Economies (EMDEs), price development was, on average, mixed, with some economies recording inflation rates that were significantly higher than those seen in the Advanced Economies. This was mostly due to continued capital outflows, poor accretion to reserves and exchange rate depreciation, which has a pass-through effect to domestic prices.

In the global financial markets, conditions remain relatively stable, as central banks continue to maintain expansionary monetary policy and sizeable stimulus packages. The huge level of monetary and fiscal injections may heighten the risk of financial instability, especially when central banks commence adjustment of policy rates.

Domestic Economic Developments

Real Gross Domestic Product (GDP), according to the National Bureau of Statistics (NBS), recorded a growth rate of 0.11 per cent (year-on-year) in the fourth quarter of 2020, in contrast to -3.62 per cent in Q3 2020 and 2.55 per cent in the corresponding period of 2019. The Q4 2020 performance, was a sharp rebound in contrast to the two previous quarters of negative growth (-3.62 per cent in the third quarter and -6.10 per cent in the second quarter). The improved performance was driven by the non-oil sector, which grew by 1.69 per cent in Q4 2020 from -2.51 and -6.05 per cent in Q3 and Q2 2020, respectively. The major drivers were Quarrying and Other Minerals, which grew by 48.42 per cent and the ICT subsector, which grew by 17.64 per cent. The oil sector, however, contracted further by -19.76 per cent in Q4 2020, from -13.89 and -6.63 per cent in Q3 and Q2 2020, respectively. This was attributed largely to the decrease in oil production in compliance with the OPEC+ production cut agreement.

The Committee noted the moderation in the Manufacturing, and Nonmanufacturing Purchasing Managers' Indices (PMI), which, however, remained below the 50 index points in February 2021, but improved to 48.70 index points apiece, compared with 44.9 and 43.3 index points, respectively,

in January 2021. The GDP growth in the fourth quarter of 2020 and expected recovery in Q1 2021, were signposted by this observed improvement in the PMIs.

The employment level index component of the manufacturing and nonmanufacturing PMIs also improved moderately in February 2021 to 45.6 and 48.0 index points, compared with 44.2 and 45.0 index points, respectively, in the previous month. The Committee, however, expressed some optimism that the legacy growth headwinds, attributed largely to the resurgence in infection rate of COVID-19 pandemic, may likely recede in the short-to-medium term, as the successful deployment of the COVID-19 vaccines and the various stimulus packages to revamp the domestic economy are sustained.

The Committee noted with concerns the continued uptick in inflationary pressure for the eighteenth-consecutive month, as headline inflation (year-on-year) continued on an upward trend, to 17.33 per cent at end-February 2021 from 16.47 per cent in January 2021. This increase continued to be attributed to the increase in both the food and core components of inflation which rose to 21.79 and 12.38 per cent in February 2021, respectively, from 20.57 and 11.85 per cent in January 2021. This persisting uptick in food inflation, however, was the major driving factor to the uptick in headline inflation. This was due to the worsening security situation in many parts of the country, particularly, the food producing areas, where farmers face frequent attacks by herdsmen and bandits in their farms. While the Bank is intervening significantly in the agricultural sector, the rising insecurity in some food producing areas, is limiting the expected outcomes in terms of supply to the market, thus contributing to the rise in food prices. The Committee further noted that the key drivers of the increase in core inflation included, the hike in the price of Premium Motor Spirit (PMS), upward adjustment in electricity tariffs and the depreciation of the domestic currency (naira).

The Committee observed that broad money supply (M3) grew marginally by 0.30 per cent in February 2021, following a substantial growth of 13.54 per cent in December 2020. This was driven largely by the contraction in Net Foreign Assets (NFA). The Committee also noted that Net Domestic Assets (NDA) grew by 3.02 per cent in February 2021, from 2.22 per cent in December 2020.

Provisional data showed that banking system credit to the economy increased by 1.75 per cent to N43.67 trillion in February 2021 from N42.92 trillion in January 2021, reflecting the ongoing broad-based monetary and fiscal stimulus to

various sectors of the economy. The Committee thus, enjoined the Bank to maintain its current drive to improve access to credit to the private sector, while exploring other initiatives with the fiscal authorities to improve funding to critical sectors of the economy.

Conscious of the persisting inflationary pressure fuelled largely by continued uptick in food prices, the Committee noted the Bank's interventions to boost food production particularly through its various Agricultural programmes. Other complementary measures included, increase in disbursement for the dry season agricultural programme to increase output, the adoption of high yield seeds to improve productivity and the adoption of harvested produce as a means of loan repayment, which has stemmed hoarding and the activities of middlemen and rent seekers. The establishment of the strategic grain reserves for staple crops has also helped in addressing seasonality of agricultural commodities.

In terms of funding, the Committee noted that the Bank has disbursed funds under its various agricultural interventions towards improving food supply in Nigeria. The Committee noted the disbursement of ₦107.60 billion to 548,109 farmers cultivating 703,619 hectares of land between Q4 2020 and Q1 2021 to boost dry season output in support of agricultural value chain development. Total disbursements as at end-February 2021 amounted to ₦1.487 trillion under the various agricultural programmes, of which N686.59 billion was disbursed under the Commercial Agricultural Credit Scheme (CACS) and ₦601.75 billion under the Anchor Borrowers Programmes (ABP) to 3,038,649 farmers to support food supply and dampen inflationary pressures.

Under the Targeted Credit Facility, the Bank has disbursed N218.16 billion to 475,376 beneficiaries, of which 34 per cent of beneficiaries are SMEs. Under AGSMEIS, N111.62 billion has been disbursed to 28,961 beneficiaries, 70 percent of which are in the agricultural sector. Under the Creative Industry Financing Initiatives mainly targeted at youths, N3.19 billion has been disbursed to 341 beneficiaries, of which 53 percent is to the movie industry.

Under the National Mass Metering Programme, N33.45 billion has been disbursed to 9 distribution companies for the procurement of 605,852 meters, while N89.89 billion has been disbursed under the Nigeria Electricity Market Stabilisation Facility (NEMSF 2) to 11 distribution companies to improve the electricity supply industry in Nigeria.

Under the N100 billion Health Care Intervention Fund, the Bank has disbursed N94.34 billion, and is willing to expand the facility, to 85 projects in the pharmaceutical industry, hospitals and State governments for both brown field

and green field projects, mostly to expand pharmaceutical drug lines, acquire MRI and other equipment and upgrade laboratories and other hospital services.

Under the N1.0 trillion Manufacturing Intervention Stimulus, the total of N803.36 billion has been disbursed to 228 projects across various sectors in agro-allied, mining, steel production and packaging industries, amongst others.

The monthly weighted average Inter-bank call and Open Buy Back (OBB) rates fell to 1.80 and 1.50 per cent in February 2021 from 3.50 and 2.30 per cent in January 2020, respectively, reflecting the continued liquidity surfeit in the banking system.

The Committee noted the weak performance in the equities market despite the recent increased patronage by domestic investors. The All-Share Index (ASI) and Market Capitalization (MC) continued to decline due to portfolio switching from equities to fixed income securities, reflecting the perception of improved yields at the long end of the yield curve.

All-Share Index (ASI) decreased by 1.17 per cent to 39,799.89 points on February 26, 2021 from 40,270.72 on December 31, 2020. Similarly, Market Capitalization (MC) fell by 1.11 per cent to N20.82 trillion on February 26, 2021 from N21.06 trillion on December 31, 2020. This was attributed largely to investor sell-off, which continued to cause price depreciation of large and medium capitalized stocks.

The MPC noted the performance of the Financial Soundness Indicators (FSIs) of the DMBs which showed a Capital Adequacy Ratio (CAR) of 15.2 per cent, Non-Performing Loans (NPL) ratio of 6.3 per cent and Liquidity Ratio (LR) of 40.5 per cent, as at February 2020. On non-performing loans (NPLs), the MPC noted that the ratio remained above the prudential benchmark of 5.0 per cent and urged the Bank to sustain its regulatory measures to bring it below the prudential benchmark.

The Committee noted with satisfaction the improvement in the level of external reserves, which stood at US$36.46 billion at end-February 2021, compared with US$34.94 billion at end-January 2021. This reflects the recent upsurge in crude oil prices on the backdrop of the renewed optimism on the successful deployment of COVID-19 vaccines across the globe.

Outlook

The medium-term outlook for both the domestic and global economies indicates cautious optimism. This is premised on the expectation of sustained policy support and successful deployment of the COVID-19 vaccines around the globe and its effectiveness in ensuring herd immunity.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest further rebound in output growth for the rest of 2021. This is predicated on the sustained, as well as additional interventions by the monetary and fiscal authorities to keep up the recovery momentum in the economy, favourable upsurge in crude oil prices, foreign exchange market stability and successful deployment of the new COVID-19 vaccines that could further stimulate economic activities and ultimately boost output growth. Given the potential rebound in output growth, bolstered by the resumption of economic activities post COVID-19, inflationary pressure in the economy is projected to moderate in short-to-medium term. The underlying risks of the efficacy of the COVID-19 vaccines against known and newly emerging strains of the virus, the uncertainty that the existing vaccines could lead to herd immunity and unequal access to COVID-19 vaccine, however, are some of the headwinds that could undermine this forecast.

The Committee's Considerations

The Committee noted the moderate recovery in output growth in the fourth quarter of 2020, associated mainly to the positive impacts of the several monetary and fiscal measures implemented to reflate the economy, following the negative consequences of the Covid-19 pandemic. This, in the Committee's consideration, provides an opportunity for further consolidation as most projections suggest substantial recovery in several economies across the globe. However, the Committee was not oblivious of the downside risks to the broad outlook for recovery in 2021, as efforts to achieve herd immunity continued to face significant headwinds.

The Committee welcomed the current efforts by the government and other support agencies in procuring vaccines and thus, urged the quick and efficient deployment of the vaccines to support ongoing monetary and fiscal stimulus towards full recovery of the economy in 2021 and into 2022.

Members expressed concerns about the unabated rising trend of domestic prices and re-emphasized the exigency for monetary and fiscal policy

collaboration to finance productive ventures, improve aggregate supply and push down prices.

The MPC reiterated its concerns on the activities of persons and groups causing security challenges in the food producing areas of the country, as this has contributed to the major uptick in food prices across the country. The Committee, thus called for a collaborative and coordinated efforts by all the relevant agencies and stakeholders towards addressing the prevailing insecurity issues and social challenges. The Committee also called on the government to explore the option of effective partnership with the private sector to improve funding sources necessary to address the huge infrastructural financing deficit.

Considering the foregoing, the MPC noted that fiscal headroom remained constrained and fragile, following the twin shocks of the pandemic and oil price volatility and the continued build-up of public debt.

The MPC noted the Bank's innovative efforts towards maintaining exchange rate stability. It also impressed on the Management to remain focused on its drive to increase accretion to reserves, especially in its recent incentives to attract diaspora remittances into the country.

The Committee welcomed the relative strengthening of the money market compared from its position at the end of the lockdown. Mindful of the risks confronting the economy, it emphasised the need for the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

The Committee commended the Bank for maintaining a robust regulatory environment despite these challenging times by ensuring that non-performing loans (NPL) ratio is driven down to prudential level, even as aggregate credit continue to grow in a market confronted with relative uncertainties.

In summary, the MPC noted the overarching need to address the twin major challenges of taming the rising inflation and sustaining growth recovery in the economy, while focusing on the downside risks associated with the injections.

The Committee's Decision

At this meeting, the dilemma that confronted the MPC relates to whether to continue to focus on efforts to stimulate outputs or whether to focus on reining in inflation, which(at 17.33 per cent) is almost attaining the January 2017 inflation level of 18.72 per cent. MPC was also worried that the level of

unemployment must be addressed swiftly to moderate the restiveness among the populace. Again, members were generally of the view that given that the exit from recession is fragile, any decision to tighten or rein-in inflation, may reverse the fragile recovery and return the economy into recession.

In the light of the foregoing, the consensus among MPC members was that, given that inflation is substantially a supply side phenomenon, there is need to continue to focus on consolidation of the recovery process, by taking those actions that would continue to stimulate output growth, create employment, but at the same time have an eye on effort to moderate the inflationary pressure; using the current administrative measures being adopted by the Bank in controlling monetary aggregates in the banking system.

In its consideration of whether to tighten, hold or loosen, therefore, the Committee felt that with inflation at a 3-year high and price stability being the Bank's core mandate, a contractionary policy stance may be required to tame the rising trend. It nevertheless feels that tightening will hike the cost of capital and hamper investments required to create employment and continue to boost recovery.

On the other hand, MPC thinks that whereas loosening would lower rate and improve access to credit which will drive investment, reduce unemployment and stimulate aggregate demand, it feels that loosening will create excess liquidity, which will intensify demand pressure on the foreign exchange market, thereby leading to further depreciation in the currency.

It, therefore, feels that a hold position which encourages Management to continue to use its various intervention mechanisms to deploy liquidity into employment generation and output stimulating sectors of the economy would be desirable as this would help consolidate the country's recovery process.

The Committee, therefore, decided by a vote of 3 members to increase MPR by 50, 75 and 50 basis points respectively, and 6 members voted to hold all parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;

II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

23rd March 2021

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The global economy continues to show prospects of recovery underpinned by progress with COVID-19 vaccination which has been ramped up especially in advanced economies in the last 3 months. Mass vaccination is expected to reduce disease transmission and result in herd immunity. Progress with vaccination has further emboldened governments around the world to allow much wider ranges of economic activity, supported by massive stimulus packages. From a contraction of about 4.0 per cent in 2020 attributable mainly to the fallouts of the COVID-19 pandemic and commodity price volatility, global output growth for 2021 was upgraded to 5.5 per cent by the International Monetary Fund (IMF) in January 2021. The World Bank is equally optimistic, though slightly less than the IMF, in their projection of 4.0. per cent global growth in 2021.

There has however continued to be wide disparities between countries in terms of progress with vaccination. This has resonated in disparities in the prospects of economic recovery with the advanced economies showing very strong recovery outlook. The growth outlook for emerging markets and developing economies (EMDEs) appears similarly good on the average at around 6.0 per cent for 2021. This is however largely anchored on Emerging and Developing Asia with over 8.0 per cent growth in view. Sub-Saharan Africa and Middle East are not showing as much prospects with 3.2 and 3.0 per cent growth projections, respectively, given their poor access/progress with vaccination and other structural challenges.

Optimism around global output recovery continues to grow despite the uncertainty arising from renewed waves and new variants of the corona virus. Other downside risks include adjustment cost of the pandemic on the global economy as well as financial fragilities in many countries. In EMDEs in particular, economic policy faces extra challenges of rising inflation and exchange rate instability. On their part, central banks and fiscal authorities around the world have continued to intensify stimulus injections to spur economic activity. And so, across the world, policy rates remained generally low in Q1 2021 even as inflation rates had started to crawl up.

As nearly all countries race to vaccinate against COVID-19, we expect the vaccination divide between the advanced economies and other economies to close soon enough. In the end, the quality of economic policy support to

activity will be the most important determinant of variations in recovery outcomes among countries. At 1.1 – 1.5 per cent (January 2021) growth projection, Nigeria's economic recovery outlook was not favourably comparable to those of some of her peers, whether EMDEs generally or commodity-exporting EMDEs. I could see the continued relevance of the development finance interventions by the CBN and other growth-promoting fiscal actions aimed at strengthening output recovery.

Despite growth in Q4 2020, overall real GDP for the year contracted relative to 2019. It is however relieving that *Agriculture* posted 3.42 per cent expansion in the quarter from 1.39 per cent in Q3, which goes to show that the Bank's focus on, and investment in the sector had started to show concrete results. However, the overall output horizon continues to be uncertain. First, the unemployment rate rose to 33.0 per cent in Q4 2020, from 27.0 per cent in Q2 2020, reflecting tighter labour market conditions. Second, both manufacturing and non-manufacturing Purchasing Manager's Indexes (PMIs) remained below the 50 index points at 48.70 index points apiece, in February 2021, though improved slightly relative to January 2021. These indicators broadly underscore the fragility of recent improvements in economic activity. It appears, the economic damage caused by the COVID-19 pandemic has been magnified by long-standing structural weaknesses in the economy. The projected level of real output growth for 2021 can neither significantly ease the employment crisis nor the domestic supply gap. As such, economic policy must continue to prioritise production to improve the growth outlook. In addition to providing stimulus for growth, incentivizing private investment in key sectors including infrastructure will aid faster and stronger recovery of domestic output.

I noted also the challenges posed by sustained inflation buildup. Headline inflation (year-on-year) rose to 17.33 per cent in February 2021 from 16.47 per cent in January 2021, reflecting largely the impact of sustained acceleration in food prices, driven mainly by supply-side factors – high transportation costs, security challenges and the lingering impact of the pandemic-induced lockdown. Generally, dealing concurrently with rising inflation and slack economic activity can be challenging for monetary policy because policy instruments work more often on the basis of trade-off between output and inflation. Yet, the available data up to mid-March 2021 do not really suggest a feasible trade-off between inflation and economic growth in the short-term.

The current episode of high inflation has its most important roots in supply constraints and exchange rate pass-through to domestic prices. In the

circumstance, tightening the stance of monetary policy may not rein-in the pressure on consumer prices; it could instead stall the fragile output recovery. Therefore, policy responses at this time must aim in part at increasing output and freeing supply chains. This and other considerations, which I have highlighted below, informed my choice of a hold position at the March 2021 Monetary Policy Committee (MPC) meeting.

Very much like I have argued in my previous statements, a double-dip recession or even a low-growth trap (post-recession) must be avoided. The risks are quite palpable. Rising production costs, slowing foreign exchange inflow, insecurity and the second wave of COVID-19 are some of the immediate downside risks to domestic economic growth. These same conditions have tended to aggravate consumer price pressures in recent months. Although, the economy exited recession in Q4 2020, some of the key growth pillars – manufacturing and services especially - continued to struggle against the headwinds noted earlier.

I believe that the prospects of improved domestic output in 2021 hinge mainly on effective liquidity support, robust private credit and confidence building through predictable policy actions. On liquidity support, the current stance of monetary policy, complemented by the development finance interventions should suffice. Meanwhile, credit to the private sector remains robust due to some of the administrative actions around the cash reserve requirement (CRR) as well as the loan-to-deposit ratio (LDR) policy. As industry funding grows, the short- to-medium term outlook for new credit should continue to be positive. Importantly, the banking industry fundamentals - particularly, CAR, NPLs and liquidity ratio – were impressive in Q1 2021. Barring any major shock, the industry is expected to remain resilient and supportive of economic expansion in the rest of the year.

Viewed holistically, I am persuaded that the extant monetary policy course is optimal and should be allowed some time to fully evolve in terms of impact on domestic production and prices. I therefore voted to:

I. Retain the MPR at 11.5 per cent;

II. Retain the Asymmetric Corridor at +100/-700 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Environment

The international economic environment continues to improve as the world overcomes the effects of the pandemic and vaccines become increasingly accessible. Global output growth for 2021 is expected to improve to 5.5% from -3.5% in 2020. Advanced and emerging economies are projected by the IMF to grow by 4.3% and 6.3% respectively in 2021. Global trade is projected to rebound strongly to 7.2% in 2021 from -9.2% in 2020. Global commodity prices, including oil, are all projected to show strong recovery. Global inflation will remain muted in the near future suggesting that fiscal consolidation in the advanced economy may not occur in the near term.

However, there are several headwinds to the Nigerian economy from the global economy: the rise in commodity prices implies rising imported inflation to Nigeria. The rising oil prices occur amidst declining output in compliance with OPEC agreements. It also means high costs of financing imports of refined products to Nigeria. In addition, the problems associated with vaccines distribution, vaccines hesitancy and spread of new variants of the virus will impact on the pace of global economy recovery. The uncertainty about COVID-19 pandemic will affect global capital flows in 2021.

Domestic Economy

The Banking Stability Report shows that the banking industry remains stable and resilient. The Capital Adequacy Ratio, Non-Performing Loans Ratio and the Liquidity Ratio remain quite encouraging and not significantly different from where they were at the January meeting of the MPC. However, there were moderate declines in Returns on Equity and Returns on Assets and a significant rise in the share of operating incomes in total interest incomes of Deposit Money Banks. All measures of Bank Size, Total Assets, Credit and Deposits significantly rose year-on-year. Over N4.56 trillion additional credit was created in the last one year, N300 billion in the last one month and N6.95 trillion of additional deposits. The Other Financial Institutions have also expanded credit appreciably, thereby providing credit support to women, workers, and informal sector operators, those that are discriminated against by the traditional banks. Data on the industry's credit disbursement shows that 83.04% of banking creditors were able to access credit at below 15% lending rates.

The Economic Report shows mixed performance of the Nigerian economy. Although Nigeria took an early exit from economic recession in 2020Q4, the overall GDP growth for the year was negative and the recovery is tepid.

Growth forecast for Nigeria for 2021 ranged from 1.1% by the World Bank to 3.0% by the Federal Ministry of Finance, Budget, and National Planning. The current growth recovery is led by agriculture and services. Oil refining and air transport are the major laggard sub-sectors. Data released by the NBS for 2020 show that unemployment and underemployment and invariably poverty rates have worsened in the last one year due to the pandemic.

Inflation rose to 17.33% in February 2021, fueled primarily by food inflation. Food inflation rose to 20.57% in February 2021 from 12.29% in February 2020. The prices of both locally produced and imported food rose between January and February 2021. Naira exchange rate depreciated across the various windows, the I&E and BDC. External reserves also declined from US$36.6 billion in December 2020 to US$34.46 billion in February 2021. The CBN has spent over US$1.3billion to defend the naira between January and February 2021. It is early in the day to know the extent to which the new policy of CBN to boost remittances will impact on pressures in the foreign exchange market. Capital imports, though have picked up in recent months is still far below the level it was in January 2020.

My Concern

The rising inflationary pressure seems to be unabated. Bank Staff projection shows that inflation will remain above 17.9% by 2021M04. This is also fueling inflation expectation by economic agents. Nigeria has one of the highest inflation rates in the world. High inflation induces macroeconomic instability. It will negatively affect the welfare of households and fixed income earners.

I fully support the direction of current policy of the MPC which is to support growth and in the medium to long term, expand aggregate supply curve of the economy and eventually lower aggregate price level. Empirical studies show that the Bank's interventions contributed significantly to the country's early exit from recession in 2020 and the better-than-expected real GDP growth in 2020.

However, the persistent high inflation figure, which is largely driven by structural factors, including insecurity all over the country, also has elements of monetary phenomenon, as Staff estimates show that broad money (M3) and net domestic credits were above their provisional levels in December 2020.

The liquidity in the economy is contributing to the pressures in the foreign exchange market as rational economic agents flee to safer currency amid low

returns on fixed income assets and rising inflation rate. The planned huge budget deficit for 2021 Fiscal Year, will further fuel local inflation rate.

Added to these, the rising global commodity prices, plus the depreciating exchange rates and relatively high costs of shipping and clearing of goods at the Nigerian ports have all contributed to high imported inflation and reduce the extent to which imports could have mitigated the impacts of high domestic food prices in the short term.

However, the weak economic growth, rising unemployment and poverty also mean that we cannot aggressively pursue strict price stability at a time we are slowly crawling out of recession. I see the CBN intervention credit as complementary and not substitution to credit from the deposit money banks. Also given the focus of capital expenditure of the government this year, it then means that we can focus on growth and tackle inflation at the same time.

However, I believe the persistent high inflation rate is concerning enough for CBN to start shifting its focus to address it. A signaling to economic agents that price stability remains the focus of the CBN will also curb some of the excesses in the foreign exchange market and reduce the liquidity induced inflationary pressures on the economy and protect fixed income earners.

My Vote

Considering the above, I cast my vote to:

i) Increase MPR by 75 basis points to 12.25%
ii) Retain CRR at 27.5%
iii) Maintain Liquidity ratio at 30%
iv) Retain Asymmetric Corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

The March 2021 Monetary Policy Committee (MPC) meeting held amidst renewed optimism for global recovery buoyed by significant fiscal and monetary policy stimulus deployed across the world. These hopes are however, moderated by recent surge in infections in some parts of the world which sparked fresh round of lockdowns, uncertainty about side-effects of the vaccines and their efficacy in preventing new strains of the corona virus and slow roll-out of vaccination programmes, especially in developing countries.

Growth expectations have thus been varied across jurisdictions - the IMF projects that while Emerging Markets and Developing Economies will grow at 6.30 per cent in 2021, Advanced Economies are projected to grow at 4.30 per cent. Global output growth is projected at 5.5 per cent in 2021 and 4.20 per cent in 2022. **Continued monetary and fiscal stimulus and seamless administration of vaccines will be required to maintain the positive momentum of global output growth.**

On a positive note, the domestic economy rebounded in Q4 2020 exceeding analysts' expectations. Nigeria exited recession in Q4 2020 with output growth of 0.11 per cent compared with contraction of 3.62 and 6.10 per cent in Q3 and Q2 2020, respectively. It is further gratifying to note that output growth was driven by the non-oil sector which grew by 1.69 per cent in Q4 from -2.51 and -6.05 per cent in Q3 and Q2, respectively. The major sectors driving growth included Quarrying and Other Minerals which grew by 48.42 per cent, ICT which grew by 17.64 per cent and Agriculture which grew by 3.42 per cent.

Expansion in domestic output in Q4 2020 moderated the negative output gap to -2.80 per cent of GDP from -5.50 per cent in Q3. Nonetheless, business sentiments remained weak as Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) both stayed below the 50 points benchmark at 48.70 per cent in February 2021. Unemployment rate also worsened to 33.30 per cent in Q3 2020 from 27.10 per cent in Q2 2020, thus highlighting the need to intensify measures aimed at boosting economic activities, particularly in labour intensive sectors.

Persistent high inflation remains a key concern for monetary policy that will require active policy response. Headline inflation rose for the 18th consecutive month to 17.33 per cent in February 2021 from 16.47 per cent in January 2021, driven mainly by increases in food prices. Structural bottlenecks such as security challenges, which prevented farmers in major food producing regions from accessing their farms, and infrastructural gaps that hampered movement of

food crops from farm to market, exacerbated inflationary pressures thus reversing the decelerating trend of inflation observed in previous months. There is an urgent need to address the structural rigidities fueling inflationary pressures to ramp up productive capacity in the agricultural sector and reduce supply side impact on food prices. In this regard, efforts at tackling security challenges faced in various geo-political regions must be intensified, so also is the execution of fiscal initiatives to improve transportation and logistics infrastructure.

Relative stability recorded in the I & E segment of the foreign exchange market. This is expected to be maintained given increase in international price of crude oil to US$66.22 per barrel in February 2021 (December 2020; US$51.27) above budget benchmark of US$40 per barrel. Continued implementation of policies aimed at improving foreign exchange receipts (diaspora remittances and non-oil exports) and eliminating spurious and speculative demand will help reduce volatility in the parallel market.

The Nigerian payment and financial system continued to be resilient supporting the economy recovery, whilst sustaining sound financial soundness indicators. Banking industry capital adequacy increased to 15.20 per cent in February 2021 from 15.10 per cent in December 2020 as a result of capitalization of year-end earnings. Liquidity remained robust at 40.50 per cent, which is above the prudential minimum of 30.0 per cent whilst the Bank also has at its disposal sufficient Cash Reserve Requirement buffers to provide liquidity backstops to the industry as required. Non-performing loan ratio deteriorated marginally from 6.10 per cent in December 2020 to 6.30 per cent in February 2021 in line with growth in the loan portfolio. Most importantly, credit to the economy grew by N642.19 billion from N20,484.71 billion at end-December 2020 to N21,126.90 billion as at end-February 2021, with significant increases recorded in major sectors driving domestic GDP growth-manufacturing, agriculture, construction and general commerce. Gross credit increased by N5,559.24 billion between end-May 2019 and end-February 2021 due to the success of the Loan-to-Deposit Ratio policy which also helped to moderate loan pricing. **Maintaining the positive trajectory of credit growth, especially in critical sectors (manufacturing, retail & SMEs) will be instrumental to accelerating output growth in the short to medium term.** Whilst the financial system has been crucial in propelling the economy out of recession, the Bank must remain vigilant and proactively anticipate and mitigate macroeconomic risks which may negatively impact the industry. This is particularly important as the Bank reviews the status of regulatory forbearance granted to restructure credit exposures in sectors adversely impacted by COVID-19. It is imperative that the banking

sector builds adequate capital buffers to preserve resilience and enable it continuously deliver on its intermediation role in the economy on a sustainable basis.

Policy Considerations and Decision

Ensuring that the economy successfully navigates out of stagflation (low growth, accelerating inflation and high unemployment) is the principal challenge faced by monetary policy at this time. Whilst the primary mandate of the monetary authority remains maintaining price stability, tightening monetary policy stance to rein in inflation may have unintended consequences for monetary aggregates and may reverse positive trend of output growth.

It is important to note that underlying factors driving domestic prices are structural and supply side related, and addressing these fundamental issues is outside the purview of traditional monetary policy tools. Accordingly, efforts should be focused on increasing the level of output as a means to driving down prices. Holding policy parameters at present levels is the current plausible policy option that will help support the trajectory of output growth which remains paramount to consolidate on the fragile recovery.

Thus, I vote to hold all parameters at existing levels, i.e; Retain the MPR at 11.5 per cent; Retain the Asymmetric Corridor of +100/-700 basis points around the MPR; Retain the CRR at 27.5 per cent; and Retain the Liquidity Ratio at 30 per cent.

4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The global economic recovery remains challenged by the persistence of the COVID-19 pandemic, despite the widespread distribution of vaccines. The optimism for a rebound in economic activities is dampened by the uneven and delayed access to vaccines, especially in the Emerging Market and Developing Economies (EMDEs), creating prospects of a partial and imbalanced global economic recovery. It is important, therefore, that relevant institutions provide the required support to ensure timely and more even distribution of vaccines across the globe, even though, the emergence of new strains of the virus particularly in some parts of Europe, Africa and South America raise concerns about the efficacy of ongoing vaccinations.

The IMF forecast global output growth at 5.5% from -3.5% in 2020. This, however, is dependent on increased contact-intensive activity enabled by continued and coordinated fiscal and monetary interventions, improvements in aggregate demand, household consumption, investment and trade, as well as vaccines rollouts.

In light of the deployment of the COVID-19 vaccines across countries and regions, global activity has begun to pick up, with salutary impact on trade volumes. The World Trade Organization forecasts a rebound in global trade to 7.2% in 2021 from -9.2% in 2020. While the possibility of prolonged lockdowns loom, following new surge in COVID-19 cases, it is believed that ample fiscal and monetary support in the Advanced Economies is likely to have a positive spillover effect on their trading partners.

Subsequent to the gradual resumption of economic activities in several countries, there has been a reasonable increase in the international price of crude oil compared with the pre-pandemic period when oil prices experienced a rapid downturn following the price war between Saudi Arabia and Russia. For instance, in February 2021, the OPEC reference basket monthly average crude oil price increased by US$6.50 or 11.95% (m-o-m), to an average of US$60.88 from US$54.38 recorded in January 2021.Although the downside risks confronting the crude oil market appear to have moderated, thereby raising expectations that prices will remain around the mid-50s per barrel in the near to medium term, there is no better time to reset the economy and reduce the excessive reliance on the commodity as the mainstay. This is because the transition to the new climate economy has gathered momentum

and poses a serious downside risk to the future of crude oil demand and production.

Nigeria exited economic recession following a positive output growth of 0.11% in Q4 from -3.62% in Q3 2020. Growth was led by the Agricultural and Services Sectors which grew by 3.42% and 1.31%, respectively, in Q4 2020 from 1.39% and -5.49%, respectively, in Q3 2020.The major drivers of growth included the expansion in crop production by 3.68%, increased demand for food items during year-end festivities, increased economic activities following the reopening of the economy, and the growth in ICT by 17.64%. Industrial growth performance contracted for the third consecutive quarter.

Growth performance was validated by the performance of the Manufacturing and Non-Manufacturing Purchasing Managers Indices, which at 48.7 index points apiece were a remarkable improvement from the 44.9 and 43.3 index points, respectively, recorded in January 2021. The month-on-month improvements in the Manufacturing and Non-manufacturing PMIs, signals the resumption and gradual recovery in economic activities.

Data from the National Bureau of Statistics revealed a worrisome unemployment rate of 33.0% in Q4 2020. Increased unemployment was driven largely by persistent structural inadequacies, worsened by a challenging operating business environment during the Pandemic. Notwithstanding, current fiscal and monetary interventions should target both low and middle income groups to drive aggregate demand, output and employment.

Inflationary pressure persisted for the eighteenth consecutive month. Headline inflation rose to 17.33% at end February 2021, well above the implicit target corridor of 6 - 9%. Headline inflation was mainly driven by the rise in food inflation, which increased to 21.79% in February 2021 from 20.57% in January 2021. Core inflation (y-o-y) grew to 12.38% in February 2021 from 11.85% in January 2021. On a month-on-month basis, Headline, food and core inflation grew to 1.54%, 1.89%, and 1.21% in February 2021, from 1.49%. 1.83% and 1.26%, in January 2021, respectively.

Broad Money (M3) contracted by -0.59% in January 2021 from 13.54 percent in December 2020. The annualized growth rate at -7.08 percent was below the 2021 provisional benchmark of 4.66%. Credit continued an upward trajectory since the inception of the Loan to Deposit Ratio (LDR) policy. Credit to the private sector grew by 1.36% to N30,558.79 billion in January 2021 from N30,149.60 billion in December 2020. At an annualized rate of 16.32 percent, growth in credit to the private sector shot above the benchmark of 14.14 %. To improve prospects of continuing credit growth in the near future, commercial

banks should be encouraged to show greater commitment and compliance with the LDR policy.

Financial soundness indicators remained stable and resilient. NPLs ratio which stood at 6.38% at end-February 2021, have over the past twelve months remained relatively flat and moderately above the prudential maximum of 5.0%.On the other hand, the stock market witnessed a bearish performance largely due to profit taking activities of investors, uncertainty surrounding economic activities, and higher yields on some financial instruments.

CONSIDERATIONS FOR VOTING

It is cheering to note that Nigeria has exited the recession it entered in Q3:2020. What is more encouraging is the fact that the recovery is V-shaped, signaling the rapid and positive impact of the sustained expansionary fiscal and monetary policy interventions since the outbreak of the COVID-19 pandemic on output. But at the same time the recovery at 0.11% is quite fragile just as the economy is suffering from persistent inflationary pressure which is at an eighteenth month high of 17.33% in February 2021. Having attained a positive growth, albeit fragile, with inflation and unemployment rising, the dilemma the Committee faced at its March meeting is whether to tighten policy parameters to rein in inflation, loosen, or to leave them unchanged to strengthen growth.

As shown earlier, the current inflationary pressure is driven by the rise in food prices, largely attributed to a combination of non-monetary factors which have led to disruptions to the supply chain, particularly insecurity in food producing regions and infrastructural gaps.

I do not subscribe to a tightening regime at this time, as there is need to sustain ongoing interventions in critical sectors of the economy to improve the current output growth. My opinion is without prejudice to the fact that a key mandate of the Bank is: ensure price and monetary stability. Indeed, with eighteen months of rising price level, price stability does matter. But, since the current price hikes are not demand driven as such, tightening may be counterproductive as it could stifle credit growth, rollback the current output level, create more unemployment and exacerbate inflationary pressure.

Also, a slight upward adjustment of the Monetary Policy Rate may neither produce a positive real interest rate to attract foreign portfolio investors, in light of the current rate of inflation, nor improve inflation rate as may be desired. I, therefore, urge the Bank to continue to explore alternative policies, particularly those measures to improve diaspora remittances to enhance foreign exchange inflow and accretion to external reserves.

Since the factors currently affecting inflation in Nigeria are largely outside the control of the central bank, a practical option in my view will be to concentrate on output growth, while focusing on the structural impediments to distribution and storage, which in the near to medium term would have a calming effect on the domestic price level. Current interventions should therefore be aggressive and properly targeted to have the expected impact on output growth and inflation. The fiscal authority will continue to work with the central bank to ensure stable prices, real GDP growth and low unemployment.

I am convinced that what is required now is to allow more time for existing policy directions to fully permeate the economy. Therefore, I vote to maintain the values of all policy parameters as follows:

- MPR at 11.5%
- The Asymmetric Corridor at +100/700 basis points around the MPR
- Liquidity Ratio at 30.0 per cent
- CRR at 27.5 per cent

5. ASOGWA, ROBERT CHIKWENDU

Background:

Since the previous MPC's meeting, progress on economic activities has been generally positive and a growing optimism now exists about global growth returning to pre-pandemic levels in the near term. Activities in many sectors have considerably picked up as at early 2021, but the pace of recovery varies across regions and countries reflecting largely the differences in the speed of vaccine rollout and the degree of economic stimulus support. Despite improvements on several counts, significant uncertainty still persists on the path of economic recovery, especially with concerns of the possibility of a third wave of the pandemic and delays in vaccine distribution across the globe. Besides, some financial market uncertainties still exist including the soaring global public debt which is currently presenting difficult trade-offs for policy makers. On the domestic front, the current inflation trajectory adds uncertainty to the growth outlook even when the prospects of economic recovery to pre-pandemic levels are brighter. Analysed information however suggests that the rise in domestic inflation reflect largely the temporary effect of supply-side disruptions. As such, monetary policy decisions at this meeting tried to balance risks around the outlook for growth and inflation, but placing considerable weight on the path for a continuation of economic recovery in line with other global strategies for getting back to normal output levels.

Global Economic Developments:

Global growth is now expected to recover faster as from the first quarter of 2021, supported by COVID-19 vaccination drives, sustained fiscal stimulus and accommodative monetary policies in many countries. Earlier forecasts were that global growth would expand by about 4 percent per year in 2021 with possible moderation in 2022 to 3.8 percent. With improvements in economic prospects, the revised projection is that by the end of 2021 or early 2022, the global economy will revert to its pre-pandemic levels with forecasts at 5.5 percent (2021) and 4.2 percent (2022). The change in prediction for 2021 and 2022 is anchored on the revival in manufacturing and the strong momentum in consumer spending.

As at 2020 fourth quarter, the GDP growth numbers for many countries looked somewhat weak as compared to quarter three. CBN staff report show that output growth in the USA in the fourth quarter of 2020 expanded by only 4.1 percent which is low compared to the previous quarter, while the Euro Area

economy contracted by 0.6 percent in the fourth quarter of 2020 after growing by 12.7 percent in the third quarter. Similarly, output growth in the fourth quarter of 2020 for the UK economy was 1.0 percent as compared to the 15.5 percent expansion in the third quarter. There are however expectations of a strong turnaround early in 2021 and the current outlook in USA, Euro Area, UK, Japan and in several emerging economies appear slightly stronger than in the fourth quarter of 2020. The Eurozone manufacturing PMI increased to a three year high in February 2021 at 57.9 percent, while industrial production has also risen considerably. In the USA, the manufacturing PMI increased to 60.8 percent in February 2021, while unemployment rate edged lower to 6.2 percent, both continuing to suggest positive growth in 2021 quarter one. In China, official manufacturing and non-manufacturing PMIs had fallen in February, but with industrial production and trade flows accelerating at this same time, there are good indications that China's GDP growth in 2021 first quarter will remain strong. In other emerging market economies, recent activity indicators also point to recovery continuing into the first quarter of 2021, although there seems to be variations across sectors, with manufacturing PMI significantly stronger than non-manufacturing PMI especially services.

There are however emerging downside risks including upward inflationary pressures which seem to be evolving in many advanced and emerging market economies as well as some financial market vulnerabilities. In the USA for instance, CBN staff report show that month-on-month inflation rose marginally to 0.3 percent in January compared with 0.2 percent in the preceding month, while in Japan month-on-month inflation rose in January 2021 to 0.6 percent compared with -0.1 percent in the previous month. There also similar inflation increases in such emerging economies as China and South Africa.

International financial conditions were broadly favourable amid high levels of global liquidity, but since mid-February 2021, global financial markets appear to have turned volatile partly driven by the surge in sovereign bond yields in some advanced countries over inflationary expectations. A key concern for emerging economies is that such bond market volatility could trigger a retrenchment of portfolio flows and also possibly higher currency volatility. A broader concern however, is the high level of public debt which was also a key issue raised in the January 2021 MPC meeting with debt service burdens now at or above the levels during the last global financial crisis.

In terms of policy outlook, both an accommodative monetary policy and expanded fiscal stimulus have underpinned recent economic recovery efforts for many countries and the balance of risks would imply a continuation of such stance. The European Central Bank has been significantly accelerating the

pace of asset purchases since the first quarter of 2021 as compared to the last quarter of 2020 while in the USA, President Biden has recently pushed through his USD 1.9 trillion fiscal support plan. Looking ahead, one would expect that once there are clear signs that economic conditions are normalising at least to pre-pandemic levels, it may then be appropriate in many countries to review their monetary policy stance.

Domestic Macroeconomic Situation:

Growth and inflation are the key domestic indicators that shaped monetary policy discussion at this meeting, but their trajectory present mixed signals. In terms of growth, Nigeria's real GDP increased by 0.11 percent in the fourth quarter of 2020, exceeding expectations when compared with -3.62 and -6.10 percent in 2020 third and second quarters, respectively. Direct data on the performance of both GDP and aggregate demand for the first quarter of 2021 are not yet available, but indirect data suggests improvements in February and hopefully stronger quarterly outcomes for the rest of 2021. CBN staff report showed that both the manufacturing and non-manufacturing PMIs increased to 48.70 index points in February 2021, compared with 44.9 and 43.3 index points respectively in January 2021. Also, the recent expansion in both exports and imports are signals for a better performance of the economy in 2021. Unfortunately, despite the relative improvement in the growth outlook in the fourth quarter of 2020, weakness in the labour market has persisted as unemployment rose to 33.3 percent in the fourth quarter of 2020 from 23.1 percent in the second quarter of 2020. However, a confluence of recent factors including the growth in private investment and government expenditure may imply that unemployment conditions on the margin may have improved somewhat since the beginning of 2021.

Inflation is perhaps the key factor damaging the outlook of the Nigerian economy. With headline inflation accelerating from 15.75 percent in December 2020 to 16.47 percent in January 2021 and further to 17.33 percent in February 2021, above the tolerance band, the effect on output recovery will largely be disruptive. In terms of drivers, statistics show that the rise in headline inflation (year-on-year) was largely due to elevated food prices which have surged to historical highs across most food and alcoholic beverage components. The inflation risk at this point is still more related to supply side volatilities rather than demand pressures and addressing the supply disruptions are more likely to result in deflationary pressures. An appreciating nominal exchange rate in recent months and generally low pass-through is also expected to contribute to moderating future inflationary pressures.

An evaluation of the financial market conditions since the last MPC meeting evokes some minor concerns as some domestic financial market indicators recorded weak performance. The Equity market increasingly turned volatile since February with market capitalization and the All-share index swinging lately, but driven by weak investment sentiment stemming from uncertainty in economic activities. In addition, there is an observed weakness in bank performance indicators especially the rise in non-performing loans ratio from 6.1 percent in December 2020 to 6.3 percent in February 2021 as well as some decline in bank profitability within the same period. While these marginal declines in bank performance indicators poses no threat to bank stability, it rather calls for more regulatory vigilance. Banking Sector credit however gathered pace in February 2021 with a total of 95,583 new credits, thus expanding the total banking sector credit by over 4.0 percent compared to the level in December 2020. This momentum is expected to continue in 2021, supported by strong liquidity in the domestic money market and the rise in lending to micro, small and medium enterprise (MSME) sector. Of the total banking sector credit to the economy, net credit to Central Government continued to grow in February resulting in a notable acceleration of broad money.

In balance, economic activity on the domestic front has been improving gradually in the past few months despite the rise in inflation which as earlier noted, reflect the temporary effect of supply-side fluctuations. The increase in bank lending is providing the desired impact in bolstering aggregate demand and economic recovery. While the debt build- up remains a key issue, the nature of this pandemic has warranted a debt surge in many emerging and developed economies, but with the speed of ongoing recovery efforts, debt decline will be imminent soon.

Monetary Policy Decision:

In consideration of the current and expected macroeconomic developments highlighted above, the balance of risks would imply a continued expansionary and accommodating monetary policy stance without overlooking the worsening inflation trend. Additional monetary stimulus including CBN targeted interventions that would address the supply bottlenecks in agriculture and support bank lending to firms and households should be sustained at a significantly higher pace so as to nurture the expected full recovery in 2021. There is however need to monitor the situation closely and once there are clear signs that economic conditions are normalizing, it may then be appropriate to

raise policy rates gradually from the current levels so as to tame any inflationary pressures arising from demand developments. Undoubtedly, there is still substantial uncertainty surrounding the path of recovery ahead especially with the volatile oil prices, but there are strong prospects that economic activity will approach a normal level by end 2021.

I will thus vote to:

- Retain the MPR at 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points
- Retain the Liquidity Ratio at 30.0%

6. OBADAN, MIKE IDIAHI

The 278th meeting of the Monetary Policy Committee was held after some good news about the Nigerian economy had been received and the prospects of global economic developments portrayed optimism. The gross domestic product (GDP) data released by the National Bureau of Statistics showed that the Nigerian economy had exited recession in the last quarter of 2020 and achieved a V-shaped economic recovery, though weak. The achievement was due to the sustained easing of the containment measures on economic activities, improvement in oil prices and sustained fiscal and monetary interventions by the government. Similar factors propelled the recovery of global economies. The coronavirus-induced twin health and economic crises adversely affected the smooth running of several economies, seriously disrupted global supply chains and weakened aggregate demand. Barring downside risks, including the fear of a third wave of new coronavirus infections, forecasts point to significant recovery of the global economy in 2021. If actualised, this could have a salutary effect on the Nigerian economy.

GLOBAL GROWTH PROSPECTS

There are indications in the global environment of a gradual recovery of output growth following the exit of various economies from the coronavirus-induced recessions in 2020. Underlying the output recovery prospects are the following: the successful roll-out and administration of the anti-coronavirus vaccines in a number of countries, especially the advanced countries; recovery in oil prices; uptick in global commodity prices; signs of recovery of the financial markets; and continued robust fiscal and monetary policy accommodation to support economic recovery, employment generation and improved aggregate demand.

The prospects for significantly improved growth in the advanced economies and industrialising Emerging Markets and Developing Economies (EMDEs) in 2021 reflect optimism. According to the IMF, the real GDP growth rates in 2020 in the three groups of economies – Global Economy, Advanced Economies and EMDEs – are: -3.5%, -4.9% and -2.4%, respectively. In 2021, the Organisation has optimistic estimates of real GDP as follows: Global economy, 5.5%, Advanced Economies, 4.3% and EMDEs, 6.3%. Specifically, the countries' performance and projected performance in 2020 and 2021 are as follows:

	2020	2021
Advanced Economies	**-3.5%**	**5.5%**
United States	-4.9	4.3
Euro Area	-7.2	4.2
United Kingdom	-10.0	4.5
Japan	-5.1	3.1
EMDEs	**-2.4**	**6.3**
South Africa	-7.5	2.8
China	+2.3	8.1
India	-8.0	11.5
Russia	-3.6	3.0
Brazil	-4.5	3.6

The 2021 forecast growth rates, if realised, will represent good performance relative to 2020. An important point that must be borne in mind is that these economies, like Nigeria's, did not fall into recession because of a fundamental shock relating to a business cycle downturn. Rather, they experienced a sudden negative health shock – the coronavirus pandemic - which the countries strived to contain through widespread/partial economic lockdowns and other containment measures. But unlike Nigeria, the advanced economies and EMDEs have well-developed production structures and robust capacities to respond to increased output demand. In other words, they have high supply elasticities.

The virus containment measures resulted in production line closures, supply-chain disruptions, trade restrictions, domestic and international travel restrictions, widespread unemployment and loss of means of livelihood. In the advanced economies and EMDEs, the fiscal and monetary responses to the health and economic crisis was robust. Then, the search for anti-coronavirus vaccine was swift and intense with successes achieved in the last quarter of 2020. Gradually, the containment measures began to ease, economic activities revived and international travel and trade resumed. The response of the economies has been swift. The idle or dampened production engines went into action restoring supply chains with the aid of fiscal and monetary stimulus which also buoyed aggregate demand. It is thus not surprising that most of these economies achieved V-shaped economic recoveries which is likely to be sustained barring downside risks.

In the face of the twin shocks, inflation has not reached worrisome level globally. Global inflation is only expected to hit the long-run objectives of central banks towards the end of 2022 when the negative output gaps begin

to narrow. Thus, in most of the advanced economies, inflation has remained low, remaining below their long-term targets, generally 2.0%. The economies have not experienced stagflation. And so the policy choice to combat the twin crisis and, specifically, exit recession was straightforward – expansionary fiscal and monetary policies. This was the basis of the huge stimulus packages implemented by the advanced economies and some EMDEs.

The above scenario sharply contrasts with Nigeria's economy which similarly experienced the twin crisis, but hobbled by stagflation at the same time. This has created a policy dilemma for the government because of the trade-offs involved in attempts to address the problem of stagflation with fiscal and monetary policies. An expansionary monetary policy, for example, to address growth challenges tends to worsen inflation, while any attempt to tighten monetary policy to contain inflation would hurt growth. This policy dilemma has remained even though the country has exited recession; the growth rate remains very low and fragile with high level of unemployment, while inflation has accelerated furiously. And so, doing what the advanced countries have done to exit recession and hoping to achieve robust growth in 2021 will not be adequate in the case of the Nigerian economy, largely because inflation is also a challenge to contend with. The Nigerian economy exhibits peculiarities which continue to challenge the ingenuity of policy makers.

KEY DOMESTIC ECONOMIC CHALLENGES

Very limited diversification of the economy.

This is such that the country relies on oil for the bulk of its foreign exchange earnings and government revenue. But these are very vulnerable to frequent shocks in the global oil market. Because of absence of savings, the country is confronted with very limited fiscal space to effectively address the twin economic crisis. Also, because of uncomfortable public debt accumulation, there is very limited headroom for further borrowing. Consequently, fiscal policy remains weak and this puts significant pressure on monetary policy in addressing the economic challenges. Also, unlike in the advanced countries, Nigeria's industry, in particular, manufacturing, is comatose making the economy to be heavily dependent on imported manufactured goods. Serious efforts were made by the government in the 1970s to encourage industrialisation through import-substitution policies, but the manufacturing factories developed were not sustained in the absence of enabling environments. Many factory spaces/warehouses were used for other purposes aside manufacturing. And so, the country remains unable to build a strong

non-oil revenue base nor use manufacturing as a pivot for growth, employment and income generation.

Low and fragile growth rates and worrisome unemployment

The national output recovered weakly in Q4 2020 with a real growth rate of 0.11% (year-on-year) compared to -3.6% in the previous quarter because of the gradual reopening of economic activities and the fiscal and monetary policy support. The latter especially through the Central Bank interventions which deliver credit to priority sectors of agriculture, manufacturing and MSMEs at single digit interest rates. There has also been the Targeted Credit Facility aimed at individuals and households adversely affected by covid-19. But the fiscal response is understandably relatively weak. The growth rate attained is fragile and the employment associated with it is low such that unemployment sharply increased from 27.1% in Q2 2020 to 33.3% in Q3 2020. Because of underlying constraints, the growth rate estimates by reputable institutions for 2021 are relatively low: 1.10% (World Bank); 1.7% (IMF); 2.15% (CBN); and 3.0% (Federal Ministry of Finance, Budget and National Planning). Thus, a growth problem remains. And how a quantum leap in growth can be achieved under the present circumstances remains an issue.

Fluctuating, sometimes very low, oil prices

Oil Price has recently rebounded strongly with the price of Bonny Light standing at US$ 66.0 per barrel as at March 18, 2021 (compared to US$ 51.27 in December 2020), far above the budget benchmark of US$ 40.0 per barrel. But it was as low as US$ 14.00 per barrel in April 2020. However, unless the current uptick in oil prices is sustained, it may not improve the fiscal position and external reserves significantly because of Nigeria's reduced OPEC quota of about 1.4 million barrels per day. And a significant part of the earnings is used to import refined petroleum products in the absence of local refining capacity. It is not in doubt that the government has serious revenue challenges. Nevertheless, there is need for government to muster the political will to save, no matter how small, from increased earnings arising from high oil prices. Any argument that the country has huge indebtedness or that it needs to spend all the earnings to overcome the infrastructure deficits or pay salaries, will not be helpful to the economy now and in the future.

Accelerating inflation

Headline inflation has persistently increased for the eighteenth consecutive month with the rate of escalation being much higher and worrisome in recent months. Yes, because of the stimulus packages entailing relatively sizable fiscal

and monetary injections into the economy, the impression could easily be given that the rise in inflation rate is due to monetary expansion. This could have been so under normal circumstances. But in practice, the monetary influence is there to a limited extent because of the phenomena of weak aggregate demand, wide negative output gap, rising unemployment rate and poverty incidence. Hence, the factors to worry about mostly are the disruptions in agricultural supply chains occasioned by bandits and herdsmen in the food producing areas of the country, policy induced factors of exchange rate depreciation, deregulation of petroleum product prices and the associated price hikes, increases in electricity tariffs, and infrastructural bottlenecks, especially road transport, and general atmosphere of insecurity in the country. Policy will need to focus more on these factors with a limited role for monetary expansion. Some of them have tended to undermine the effectiveness of the CBN's development finance interventions aimed at supporting growth, boosting aggregate supply and reducing the inflation rate.

Other sources of worry

These emanate from the developments in the external and fiscal sectors. The external sector reflects increased pressures and is characterised by worsening current and capital account deficits, foreign exchange demand/exchange rate pressure, low accretion to external reserves, low foreign capital inflows and heightened capital flows reversal. In the fiscal sector, the government is increasingly confronted with low domestic revenue mobilization / declining revenue in the face of increasing public expenditure, rising fiscal deficit and rising public debt and rising public debt/revenue ratio with consequent increasing pressure on monetary accommodation.

The external sector challenge can be addressed by laying a solid foundation for non-oil exports growth to provide a fairly more stable source of foreign exchange earnings and reserves accumulation. To this end, provision of a conducive macroeconomic environment is indispensable. On the fiscal front, the challenge is from both revenue and expenditure sides. The political will to aggressively mobilise tax revenue is of the essence, while the government needs to take a hard look at the cost of governance with a view to rationalising it. This is already a source of public concern, yet government organs continue to make suspect policy decisions that could increase the already worrisome high cost of governance.

OPINION

We are faced with the dilemma of low and fragile growth that needs to be reversed and accelerating inflation that also needs to be tamed because of

its negative impact on people's welfare and macroeconomic stability which is required for enhanced investment and production. Orthodox policy instruments available to the Bank are not capable of achieving the desired two goals of strong growth and inflation control simultaneously without sacrificing one for the other.

Therefore, at this point in time, it is important for the Bank to continue to support the growth objective through the development finance interventions, perhaps more intensely, in the hope that the fiscal authority will have a good handle on the factors that tend to undermine the interventions, in particular, flooding and insecurity in the food producing areas and all over the country.

Stability needs to be brought to bear on the policy-induced drivers of the current inflation acceleration, while the MPR can be raised marginally with three objectives in mind: to signal the sensitivity of the Bank to addressing any possible monetary influence on inflation. The factor of monetary influence on inflation cannot be ruled out completely. It interacts with other factors to drive inflation, perhaps, in a limited role. Against the backdrop of the Loan-to-Deposit Ratio (LDR) policy, I do not expect the MPR adjustment to adversely affect the volume of lending significantly. To this end, we should put more pressure on the deposit money banks to comply with the LDR policy. Marginal upward adjustment of the MPR can also signal the desire of the Bank to tackle the phenomenon of negative real interest rate. Finally, in the short term, it could be a signal to foreign private investors while we implement measures to ensure stable sources of external reserves accretion in the medium term. Yes, it is true that foreign portfolio investment flows are hot monies which tend to be very volatile. However, under conditions of improving growth, such flows could play a stabilising role in the economy.

So, my vote is: raise MPR by 50 basis points and leave the other parameters as they are.

7. SANUSI, ALIYU RAFINDADI

1.0 Decision:

I have voted to hold all the policy parameters in today's meeting amidst a strong desire to tighten, given the rising inflation and exchange rate pressures. However, in the context of an economy barely exiting one of the worst recessions in recent history, with huge job losses that are yet to be regained, tightening could reverse the fragile recovery. In addition, I was persuaded by the conviction that the current inflationary episode has predominantly originated from the supply-side and structural factors, hence, tightening may curb inflation only at a disproportionately large output cost. These output costs are unbearable in the context of the weak, albeit better-than-expected output recovery, and significant job losses following the deep recession inspired by the COVID-19 containment measures. I, therefore, voted to hold despite the threat of rising inflation in order to allow for stronger output recovery.

2.0 Background and Justification

2.1 Global Economic Developments

The continued synchronized fiscal and monetary stimulus as well as the massive administration of the COVID-19 vaccines in both Advanced Economies and Emerging Market & Developing Economies (EDMEs) are expected to drive global economic recovery.

The approvals and successful roll-out of vaccines across the globe, coupled with announcements of substantial additional fiscal and monetary injections by several countries to support recovery, a strong global recovery is forecasted in 2021. This is notwithstanding the discovery of new variants of the virus – the South African and Brazilian variants - that are more fatal. Recently, a Nigerian variant was also discovered in small quantities across the globe. Although the effectiveness of the current vaccines against these new variants remain uncertain, the wide-spread success of the vaccine roll-out raises hope for recovery of global merchandize trade thereby further opening up the global supply chain. The continuation of fiscal policy accommodation by major advanced economies in 2021, aimed at saving jobs and supporting consumption and output, is expected to support a strong global recovery in 2021.

Global output growth, which contracted by -3.5% as a result of the various measures to curb the spread of the COVID-19 pandemic, is forecasted to grow by 5.5% and 4.2% in 2021 and 2022, respectively. The downside risks to this forecast include the emergence of new variants of the coronavirus against which the existing vaccines may not be effective. *Owing to the low coverage of the vaccines as well as uneven distribution across the globe, the economic effect of the pandemic is expected to continue in 2021.* In the 4th quarter of 2020, most of the Advanced Economies, continued to recorded output expansions except the Euro Area which recorded contraction for the year 2020. The US economy, for instance, grew by an annualized (q-o-q) rate of 4.1% compared with 33.1% recorded in 2020Q3. For the year 2020, however, a contraction of -3.5% (y-o-y) was recorded. The Euro area contracted by -0.6% (q-o-q) in 2020Q4 compared with an expansion of 12.7% in 2020Q3. For the year 2020, the Euro area contracted (y-o-y) by -5.0%. The UK economy grew by 1% (q-o-q) on 2020Q4 compared with 15.5% in 2020Q3. For the year 2020, the UK economy contracted by -9.9%. In Japan, the economy expanded by 3% (q-o-q) compared with 5% in 202Q3 but contracted (y-o-y) by -4.8% in 2020. In the Emerging Markets and Developing Economies (EMDEs), China recorded a (slower, but) positive growth of 2.6% in 2020Q4, but expanded by 2.3% in the year 2020. Brazil's output expanded by 3.2% (q-o-q) in 2020Q4 compared with 7.7% in 2020Q3. In India, output expanded by 7.9% (q-o-q) in 2020Q4 compared with 12.9% (q-on-q) in 2020Q3. South Africa grew by 6.3% (q-o-q) in 2020Q4 compared with the sharp rebound of 67.3% observed in the third quarter of 2020. For the year 2020, however, the economy contracted by -7.0%. In Nigeria, a positive q-o-q expansion of 9.7% was recorded in the fourth quarter of 2020 compared with 12.1% in 2020Q3. This better-than-expected growth in 2020Q4 implies a year-on-year output growth of 0.11%, which marked the economy's exit from the technical recession.

There are optimisms that global trade would recover significantly in 2021 following the ministration of the coronavirus vaccines across countries. World trade, led by trade in merchandize, is forecasted to grow by 8.0% in 2021 and 6.0% in 2022. The steady increase in the global demand for crude oil, coupled with the OPEC+ production cuts have supported the rise in the crude prices. In February 2021, the monthly average price of the OPEC reference basket rose to US$60.88 from US$54.38 in January 2021.

Inflation in the Advanced Economies is expected to rise to 1.3% in 2021 from 0.7% in 2020, while that of Emerging Market and Developing Economies (EMDEs) is expected to decline to 4.2% in 2021 from 5.0% in 2020. In the Euro

Area, inflation remained at -0.9% between January and February 2021. In the US, inflation increased (year-on-year) to 1.7% in February 2021 from 1.4% in January 2021. In the UK, inflation increased to 0.7% in January 2021 from 0.6% in December 2020. In Japan, deflation continued with the inflation rate declining to -0.4% in February from -0.6% in January 2021. In the EMDEs, inflation increased across many economies between January 2021 and February 2021, including China (-0.3% to -0.2%), Kenya (5.69% to 5.78%), Egypt (4.3% to 4.5%), Ghana (9.9% to 10.3%). In Nigeria, inflation rose for the 18th consecutive month from 16.47% in January 2021 to 17.33% in February 2021, driven by COVID-19 related supply chain disruptions, exchange rate pressure and security challenges in food producing areas.

2.2 Domestic Economic Developments and their Implications

Available data from the National Bureau of Statistics show that Nigeria has exited the recession having recorded a positive output growth (year-on-year) of 0.11% in the fourth quarter of 2020. Although marginal and fragile, this v-shaped recovery, which was the aim of the sustained unprecedented fiscal and monetary policy support, is a welcome development. The output recovery was driven by the agricultural and service sectors, which grew by 3.4% and 1.31% in 2020Q4 from 1.39% and -5.49% in 2020Q3, respectively. *Industry, however, contracted for the third consecutive quarter by 7.3% in 2020Q4, thus, reflecting the fragility of the recovery.* While the growth of agriculture was driven by crop production which grew by 3.68%, that of the service sector was driven by ICT, which grew by 14.7% in 2020Q4. This positive economic performance was supported by the availability of liquidity as economic activities resumed following the re-opening of the economy from the COVID-19 lockdown. The CBN's Purchasing Managers Indices (PMIs) suggests that there are improvements in both manufacturing and non-manufacturing activities between January 2021 and February 2021. For instance, the Manufacturing PMI increased from 44.9 in January 2021 to 48.7 index points in February 2021. The Non-Manufacturing PMI, which stood at 43.3 in January 2021, increased to 48.7 index points in February 2021. These increases in the PMIs reflect increased economic activities as the COVID-19 restrictions were eased, as well as increases in client demand and sales.

Latest labour market data shows that the rate of unemployment worsened, but that of under-employment improved in 2020Q3. *In 2020Q4, the rate of unemployment continued to increase from 27.1% in 2020Q2 to 33.3%.* Underemployment rate, however, declined from 30.5% in 2020Q2 to 15.12% in 2020Q4. The total labour force, which was about 80.3 million in 2020Q2 declined to about 69.7 million in 2020Q4, a decline of about 10.6 million people

during the period. *The rise in the number of unemployment amidst declining labour force indicates that there were actual job losses during the period, which can be attributed to the COVID-19 restrictions. This, further, underscores the fragility of the recovery. Further analysis of the age structure of the unemployed suggest that youths (15-34years olds) are the worst hit, as their rate of unemployment was highest amongst 15-24 years (which stood at 53.4%) and 25-34 years (which stood at 37.2%). This highlights the urgency of the social problems we now face as a fallout of the COVID-19 pandemic.*

Inflation, as was forecasted, continued on an upward trajectory in February 2021, driven by the food and core components. Data from the NBS shows that, in February 2021, the headline has risen to 17.33% (y-o-y) from 16.47% in January 2021. Food inflation (y-o-y) rose to 21.79% in February 2021, from 20.57% in January 2021, driven by increases in the prices of processed foods especially garri, meat, fish & sea food; and farm produce such as yam, potatoes and other tubers, vegetable and rice (local). Core inflation (y-o-y) rose from 11.85% in January 2021, to 12.38% in February 2021 due to increase in the prices of processed food, housing, water, gas & other fuels, clothing & footwear. Staff forecasts suggest that inflation would rise in March and moderate in April depending on the evolution of exchange rate and PMS. The forecasts reflect the food supply shocks associated with insecurity, rising exchange rate pressure, rising price of PMS and rising electricity tariff.

Monetary data shows that money supply expanded (year-to-date) in February 2021. Broad money supply (M3) increased by 0.3% in February 2021 relative to February 2020, but was below the provisional benchmark for 2021. The low growth was as a result of the fall in the Net Domestic Assets (NDA). However, domestic credit expanded by 1.55% in February 2021 reflecting the continued effects of the various CBN's credit policies as well as the on-going development finance interventions. Available data shows that Prime Lending and Maximum Lending rates continued to decline in February 2021.

3.0 The Basis for My Policy Choice

In today's meeting, the choice between *tightening* to curb the rising inflation, and *holding* on the current stance to prevent the reversal of the fragile output recovery was a difficult one for me. On the one hand, I am convinced that tightening at this point, given the fragile state of the output recovery, would raise the cost of capital and hamper investment that is needed to create jobs and reduce the raging unemployment rate. Although the inflation rate has reached an unacceptably high level, given that the key drivers of the current

inflationary episode lie more on the supply side, the output cost of a tightening would be large, thereby risking a reversal of the v-shaped recovery achieved. On the other hand, it is difficult of consider holding on to the current policy stance when inflation has risen to 17.33% and threatening to continue. However, considering that the economy is just emerging from the lockdown and other restrictions associated with the COVID-19 pandemic, and the global uncertainties associated with the efficacy of the vaccines on the several strains of the virus, I have voted for a hold.

Consequently, I voted to:

Retain the MPR at 11.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the Asymmetric Corridor at +100/–700 basis points; and

Retain Liquidity Ratio at 30.0 per cent.

8. SHONUBI, FOLASHODUN A.

Optimism about further global economic recovery in 2021, on account of steady progress in the vaccination rate and prospects of new vaccines is dampened by gaps in vaccine distribution, risks of more transmissible strains of the Covid-19 virus and significant time required to reach herd immunity. Notably, the pace of recovery has been determined, largely, by record-level fiscal and monetary stimuli, though tourism-based economies and low income nations continued to face more challenging situations as a result of low prospects for cross-border travels and vaccine supply imbalance.

Amidst euphoria over the quick but fragile exit from recession, the domestic economy remains challenged by elevated general prices, prevalent insecurity, high unemployment and underemployment, over stretched fiscal space, and heightened external sector vulnerabilities. With the delivery of vaccines, immediate and systematic commencement of vaccination, as well as, improvement in security will enhance positive sentiments towards further opening up of the economy. Though significant part of the inflationary pressure is attributed to food prices, driven by structural rigidity, as well as, insecurity induced disruptions to farming activities and products distribution, the Bank must at this time consider ingenious ways of taming inflationary pressures, without jeopardizing the marginal gains in production and output growth.

Global and Domestic Economic Developments

Positive performance recorded by most developed economies in Q3 2020 either moderated significantly or were reversed in Q4 2020. In the United States, despite the huge direct payment and unemployment benefits stimuli, the economy was estimated to have contracted by -3.5 per cent in 2020. Similarly, on account of protracted restrictions to deal with increasing infection rate, economies of the euro-area and United Kingdom shrank by -5.0 and -9.9 per cent, respectively, in 2020. In the emerging markets and developing economies (EMDEs), India, South Africa, Brazil and Russia, contracted by -8.0, -7.5, -4.5 and -3.6 per cent, respectively, while China grew by 2.3 per cent. Inflation remained below target in advanced economies due to weak aggregate demand, while exchange rate pass through and disruptions to distribution continued to fuel rising prices in EMDEs. Global trade declined by -9.2 per cent due to persisting barriers to trade.

Domestic headline inflation rose further to 17.33 per cent (year-on-year) in February 2021, from 16.47 per cent in the previous month. This reflected increase in both food and core inflation to 21.79 and 12.38 per cent in February 2021, respectively. On month-on-month basis, rise in general prices picked up

further by 1.54 per cent in February 2021, after it dropped to 1.49 per cent in January 2021, from 1.61 per cent in December 2020. The persistent rise in food prices was attributed to impact of disruptions to farming activities and distribution, on account of pervasive insecurity, as well as, rising cost of imports.

The economy pleasantly exited recession in the fourth quarter of 2020 with GDP growth of 0.11 per cent (year-on-year) after two consecutive contractions of -6.10 per cent in Q3 2020 and -3.62 per cent in Q4 2020. The growth was driven entirely by 1.69 per cent expansion in the non-oil sector in Q4 2020, which overturned the effect of further -19.76 per cent contraction in the oil sector in Q4 2020. Oil sector contraction reflected OPEC+ production cut agreement induced decline in oil production.

The Nigerian banking system continued to show signs of resilience, even as it remained the major channel for sustaining the economy during the crisis and beyond. Industry asset, deposit and credit grew further at end-February 2021. The average capital adequacy ratio improved to 15.2 per cent, against 15.0 per cent regulatory threshold, while industry liquidity ratio, at 44.5 per cent in February 2021, remained above regulatory threshold of 30.0 per cent. Measures of profitability were positive, though the NPL ratio deteriorated marginally to 6.3 per cent, above the regulatory minimum of 5.0 per cent.

Growth in credit to the Government, domestic claims and credit to private sector reflected impact of various measures by the Bank to promote flow of credit to drive economic activities. Money market rates were moderated by ample banking system liquidity, buoyed mainly by inflow from maturing bills. The capital market closed on a bearish note in February 2021 due to switch by investors to take advantage of the higher yields in the fixed income market and profit taking sell-off.

Though the fiscal space remained tight, performance of the major fiscal measures moderated in February 2021. Retained and total distributed revenue increased over the levels in January 2021, while overall deficit was lower than the level in the previous month. Decline in Government expenditure reflected weak capacity of the fiscal authority in a period that requires aggressive spending to boost economic activities. The external sector was characterised by persisting demand pressure in the foreign exchange market and deteriorating balance of payments position. Foreign direct and portfolio investments remained low, though international remittances picked up in the review period.

Overall Considerations and Decision

Prospects of global economic growth in 2021 is anchored, largely, on the vaccination rate, effectiveness of controls to curb spread of new variants of the virus and preservation of the already stretched fiscal and monetary policy stimuli measures. Recurring lockdowns, in many advanced economies of Europe and Asia in particular, however, cast doubt on the pace of global economic recovery, with implications for the rest of the world. Though recent surge in global oil prices provides some respite for Nigeria, the likely return of shale oil production and increasing sentiments away from fossil fuel, portends risk to future oil demand. Again, this trend underscores the need to further reinforce ongoing recalibration of the domestic economic structure.

Having sluggishly exited recession in the fourth quarter of 2020, the Bank faces a major policy dilemma of how best to further strengthen growth, and at the same tame spiraling inflation. The need to enhance output remains pertinent to effectively deal with high unemployment and rising underemployment, as well as, address increasing poverty among the populace. High inflation on the other hand continues to erode purchasing power, negatively impact welfare of the people and precipitate macroeconomic instability.

Without doubt, the Bank's policy of facilitating aggressive expansion of credit to promote output growth has had significant impact on the economy. In this regard, the banking system has continued to be a veritable channel for supporting the expansion of economic activities through provision of easy and cheap credit. Sustained resilience of the banking system, on account of effective regulation and supervision by the Bank provides assurance that the sector will continue to play this important role, without jeopardizing stability of the system. Of course, the Bank must not take its eyes away from ensuring general compliance.

The Bank's effort at improving external sector conditions through its various policies to promote non-oil exports and remittances is commendable. Sustained implementation of the measures is expected to yield desired outcomes in the coming months. Recent moderation in fiscal deficit, improvement in retained revenue due to modest rise in crude sales and decline in debt-service-to-revenue ratio, on account of Covid-19 Relief-loan repayment deferment concession, are envisaged to provide some head room for the fiscal authority.

Rising food prices, as the major driver of inflation, has been attributed largely, to insecurity induced disruptions to food farming and distribution, as well as, other rigidities affecting availability and cost of essentials. In addition, subtle

monetary drivers of inflation may be attributed to rising credit and money supply, high liquidity etc. it is therefore pertinent that as the fiscal authority takes pragmatic steps to resolve the structural bottlenecks, the Bank, must in addition to supporting growth, act to preserve price stability, especially since inflation is seen more as a monetary phenomenon.

Clearly, not doing anything will portray the Bank as abandoning its mandate of price stability. In as much as growth remains weak and fragile, we cannot afford to pull the brake to avert more damaging reversal of the trend in output growth. Notwithstanding that the present inflationary pressure is largely attributed to non-monetary factors, its persistence, and reversal of the moderation in month-on-month growth stresses the need for the Bank to take immediate action. Whereas it may appear unfeasible to deploy conventional monetary policy to pursue growth and tame inflation simultaneously, the Bank cannot abandon either of the objectives at this time.

I believe the Bank's interventions through aggressive provision of credit should continue as a complement to ongoing effort by the fiscal authority to boost economic activities. As the Government act, more decisively to discourage bad behaviour and restore orderliness, we must collectively work to overcome the insecurity challenges. At the same time, we must begin to tighten to deal with the subtle monetary component of inflationary pressure and curb spiraling inflation, without suffocating economic growth.

I therefore vote to:

- Raise MPR by 50 basis points to 12.0 per cent;
- Retain Asymmetric Corridor of +100/-700 basis points around the MPR;
- Retain CRR at 27.5 per cent; and
  Retain Liquidity Ratio at 30.0 per cent.

9. EMEFIELE, GODWIN I.

GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

Outlook of the domestic economy improved as growth trajectory turned the corner in 2020q4, behind unsavoury contractions in the preceding two quarters. At 0.1 percent, the positive growth is indeed satisfying but fragile. Analyses of domestic developments show the inherence of downside risks to growth especially as adverse structural shocks remain proximate. I recognise the need to consolidate recovery at this time in order to avert a *w-shaped* traverse. I am mindful that inflation outcome stayed unsatisfactory with 18 consecutive months of uptick and note the policy dilemma for us, given the need to balance our inflation objective with a growth desire. As global rebound is expected to accelerate in the short-term, Nigeria's growth prospect must not be forestalled and the currently tepid growth requires strengthening.

Global economic recovery remains weak, but outlook is brightening following increased vaccine rollout in many countries. The prospect of wider re-opening of economic activities and continued stimulus measures by various governments is expected to quicken growth in the short-term. Growth in global GDP could reach pre-pandemic levels by mid-2021, rebounding from –3.5 percent in 2020 to about 5.5 percent in 2021, if vaccines become more evenly distributed across the world. Monetary policy stance stayed accommodative in many central banks, so as to stimulate aggregate demand and bolster output following the continued distortions by Covid-19. Accordingly, a near-zero level of interest rates is expected to remain in major economies for a prolonged period to prop financial conditions and aid ample liquidity build-up. Global inflation rate was muted, remaining largely below the 2 percent target in many advanced economies, while the outcome among EMDEs was uneven.

With an increasingly well-synchronised fiscal and monetary stimulus, short-term outlook of the domestic economy continued to improve, although key fundamentals remained fragile. The sizable expansionary policy to strengthen consumer spending, bolster business confidence and curtail the adverse shocks from Covid-19 led to a swift exit from recession, but at a cost to inflation. Real GDP grew by 0.1 percent in 2020q4 from –3.6 percent in 2020q3 and –6.1 percent in 2020q2. For the whole year, GDP growth fell from 2.3 percent in 2019 to –1.9 percent in 2020, a far better outcome than the projected contraction of –4.5 percent. Even as crude oil price rallied globally, oil GDP

growth rate remained significantly negative with the non-oil sector (especially mining, telecoms, health, and agriculture) driving recent trends. The domestic economy is envisaged to consolidate its recovery over the next four to five quarters across many non-oil sectors, if appropriate supports are instituted.

On a balance of judgement and evidence, recent decisions to spur growth was cognisant of the immanent inflation trade-off. Inflation rate, thus, continued its uptick to 17.3 percent in February 2021 from 16.5 percent in January. This reflected the 21.8 percent rise in food inflation and 12.4 percent increase in core inflation. In addition to the effect of the deliberately accommodative macroeconomic policies aimed at reversing the adverse effects of the Covid-19 shocks on real output, the pace of inflation was aggravated by supply factors including energy price hikes, climate (and other disruptions) induced food shortages, transport and distribution logistics drawbacks, exchange market pressure, etc. The tailwind to food inflation is considerably the critical security situations in many food-producing areas of the country. In-house analysis, however, indicates that inflationary pressures may begin to ease by mid-2021 with the harvest season. Recognising the importance of adequate food production, storage, distribution and supply to both GDP and inflation outcomes, the Bank will invigorate its development finance initiatives aimed at boosting the agricultural value-chain.

Review of financial markets condition indicates a modest monetary expansion, as annualised M_3 growth of 1.8 percent in February 2021 undershot the programmed target of 4.7 percent and the 13.5 percent recorded in December 2020. This reflected the 18.1 percent annualised expansion in net domestic assets due to the 19.2 percent annualised increase in credit to core private sector. The observed growth in private sector credit follows our various interventions aimed at spurring aggregate demand, stimulating output, and de-risking the productive activities. Regardless of the increase in credit, the banking system remained relatively resilient with industry averages of the CAR at 15.2 percent, NPLs ratio at 6.3 percent, and liquidity ratio at 40.5 percent. The Bank will sustain its regulatory measures to foster banking system stability. We will also continue to use all means available to us to engage and encourage banks to increase credit to the productive private sector.

In my consideration, I note that the short-term prospect of the domestic economy is tepid and vulnerable. A speedy and even rollout of the Covid-19 vaccines could bolster global growth with a positive spill-over to the domestic conditions. I note also that growth is below potential and inflationary pressures

persist. Per capita income, household purchasing power, incidence of poverty, labour productivity, business confidence, and unemployment rate remain outside tolerable levels. Tensions around food production belts heighten macroeconomic fragilities, worsen structural imbalances, aggravate supply-side constraints and threaten the long-term objective of price stability. I note that inflation is creeping to unacceptable levels. Yet, this must be balanced with the need to ensure that recovery of the economy is at a sustainable level. Supply constraints remain the key driver of both the inflationary pressure and the weak growth that we observe today.

The weak GDP recovery provides an argument for further policy ease to support growth, but rising inflationary expectations justify a tightening. My inclination today is for a more balanced and cautious approach to monetary impulses. I reiterate the imperatives of targeted lending to productive sectors to sustain growth without undermining our core objective of price stability. Based on the near-term inflation expectations and growth outlook, my position is to maintain the current stance of monetary policy and intensify our interventions. An adjustment today could in my view, destabilise the fragile recovery and worsen domestic conditions. Therefore, with abundance of caution, I vote to:

1. Retain the MPR at 11.5 percent;
2. Retain the Asymmetric Corridor at +100/–700 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON
Governor

March 2021